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ABSTRACT

A summary of the information presented at a May 31, 1988 meeting between the staff members of the Subcommittee on Postsecondary Education and the General Accounting Office (GAO) is provided. The information represents preliminary results of the GAO analysis of the characteristics of borrowers and defaulters in the Guaranteed Student Loan (GSL) program. This analysis was done as part of the ongoing GAO study of guaranty agencies' activities required by section 1311 of the Higher Education Amendments of 1986. The focus was on the more than 1,182,000 borrowers who had received their last loan in 1983 and had either begun to repay or had defaulted on their loans as of September 30, 1987. Preliminary analysis of student loan borrowers and defaulters show that: (1) vocational school students defaulted at higher rates than other students; (2) independent students defaulted at higher rates in each income catetgory than dependent students; and (3) borrowers who attended school one year or less defaulted at higher rates than those who continued beyond one year. Appended charts show: kind of institution attended by students; borrowers and defaulters by institution attended; more defaulters from low income families; independent students have higher default rates; most defaulters attend school for one year or less; defaulters' income by selected characteristics; percent of 1983 borrowers who defaulted by 9/30/87; and characteristics of borrowers and defaulters. A list of related GAO products (reports and testimonies) is provided. (SM)

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United States General Accounting Office

GAO

Briefing Report to the Chairman, Subcommittee on Postsecondary Education, Committee on Education and Labor, House of Representatives

June 1988

DEFAULTED STUDENT LOANS

Preliminary Analysis of Student Loan Borrowers and Defaulters

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GAO

United States
General Accounting Office
Washington, D.C. 20548

Human Resources Division

B-204708

June 14, 1988

The Honorable Pat Williams
Chairman, Subcommittee on
Postsecondary Education
Committee on Education and Labor
House of Representatives

Dear Mr. Chairman:

On May 31, 1988, we met with staff members of your Subcommittee and other congressional staff members. At that meeting, we discussed some preliminary results of our analysis of the characteristics of borrowers and defaulters in the Guaranteed Student Loan (GSL) Program. This report provides a summary of the information presented during that meeting.

This analysis was done as part of our ongoing study of guaranty agencies' activities required by section 1311 of the Higher Education Amendments of 1986. We used the Department of Education's latest cumulative computerized data base on the status of guaranteed student loans made through September 30, 1987. This data base, commonly referred to as the "GSL Tape Dump," is generated from records prepared by guaranty agencies and submitted to the Department at the end of each fiscal year. It contains records on loan amount, loan status, and borrower characteristics on loans made since the program began.

We focused on the over 1,182,000 borrowers who (1) received their last loan in 1983 and (2) had either begun to repay or had defaulted on their loans as of September 30, 1987. We analyzed 1983 loans because they are old enough that most defaults which are going to occur will already have occurred. Default statistics were calculated for this analysis as the number of 1983 borrowers who defaulted by September 30, 1987, divided by the total number of students who received their last loan in 1983. While individual records in the Department's tape dump are often incomplete and we did not verify the data, they are the only national data base on the GSL program.

On February 2, 1988, we testified before your Subcommittee and presented some general defaulter attributes obtained from this data base. As we noted then, we believe the file provides useful information on borrowers' and defaulters' characteristics when used to calculate aggregate statistics.

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Loans guaranteed through 1987 totaled over $70 billion—with outstanding student debt almost doubling during the last 5 years. During the same 5-year period, total defaults increased by 276 percent. In fiscal year 1987 alone, federal default claims amounted to about $1.3 billion. Of the approximately 1.18 million borrowers who obtained their last guaranteed loan in 1983, 18 percent (over 228,000) had defaulted as of September 1987. Default rates varied substantially, however, depending on students' income levels, the type of schools they attended, and whether they were financially independent. Some of the more significant findings are summarized below.

Vocational School Students Defaulted at Higher Rates Than Other Students

Overall, 35 percent of vocational students defaulted. This ranged from 13 percent for students dependent upon their families for financial support and whose families had incomes of $30,000 or more, to 53 percent for independent students—those receiving no financial assistance from a parent—with family incomes of less than $10,000. In contrast, the overall default rate for students attending traditional 2- and 4-year schools averaged 12 percent, or about one-third the rate for vocational students. Default rates for students at 2- and 4-year schools ranged from 5 percent for dependent students from families with incomes of $30,000 or more, to 21 percent for independent students with family incomes of less than $10,000. Family income used in the computations shown in this report are at the time of loan application. (See p. 12.)

Independent Students Defaulted at Higher Rates in Each Income Category Than Dependent Students

Overall, 28 percent of independent students defaulted compared with 15 percent of dependent students. The default rate for independent students ranged from 7 percent for those from families with incomes of $30,000 or more who attended traditional 2- and 4-year schools, to 53 percent for those from families with incomes of less than $10,000 who attended vocational schools. The related rates for dependent students ranged from 5 to 43 percent. (See p. 12.)

Borrowers Who Attended School for One Year or Less Defaulted at Higher Rates Than Those Who Continued Beyond One Year

Overall, almost 33 percent of those who attended school for one year or less defaulted on their loans, ranging from 23 percent for those who attended traditional 2- and 4-year schools to 39 percent for vocational school students. In contrast, 11 percent of borrowers who attended for more than one year defaulted, ranging from 10 percent for those who attended traditional 2- and 4-year schools to 22 percent for vocational school students. (See p. 10.)

Included with this letter as an appendix are the charts used in our May 31 briefing. They contain more detailed statistics on each of the topics discussed in this letter.

Given the time available to prepare this report, we were unable to obtain agency comments. We are sending copies to other congressional committees, the Department of Education, and other interested parties. Should you wish to discuss the information provided, please call me on 275-5365.

Sincerely yours,

William J. Gainer

William J. Gainer
Associate Director

Contents

Letter		1
Appendix		6
Defaulted Student Loans: Preliminary Analysis of Student Loan Borrowers and Defaulters	Kind of Institution Attended by Students	6
	Borrowers and Defaulters by Institution Attended	7
	More Defaulters From Low Income Families	8
	Independent Students Have Higher Default Rates	9
	Most Defaulters Attend School for One Year or Less	10
	Defaulters' Income by Selected Characteristics	11
	Percent of 1983 Borrowers Who Defaulted by 9/30/87	12
	Characteristics of Borrowers and Defaulters (Percent)	13
Related GAO Products		16

Abbreviations

GAO	General Accounting Office
GSL	Guaranteed Student Loan

Defaulted Student Loans: Preliminary Analysis of Student Loan Borrowers and Defaulters

GAO	Kind of Institution Attended by Students	
	Higher Education:	Mostly traditional 2 & 4 year schools
	Vocational:	Mostly proprietary & other trade schools
	Other Schools:	Other schools not included in above categories

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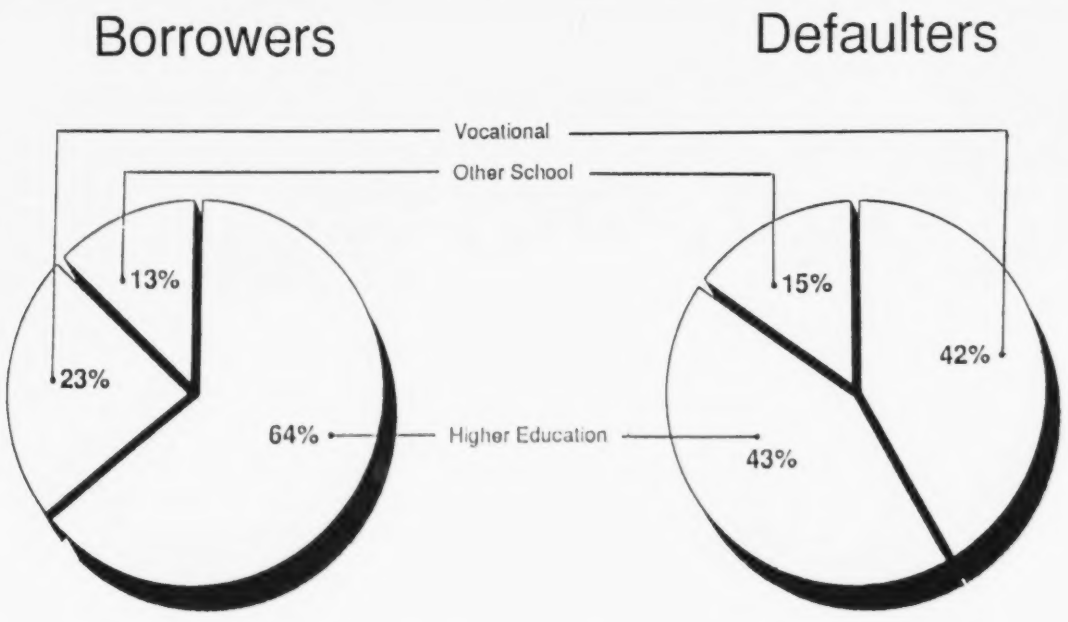
Borrowers and Defaulters by Institution Attended



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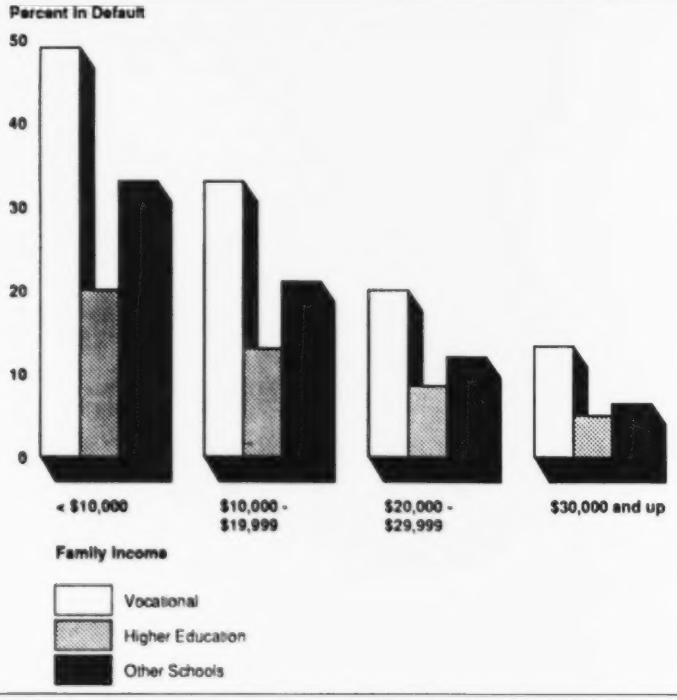
More Defaulters From Low Income Families



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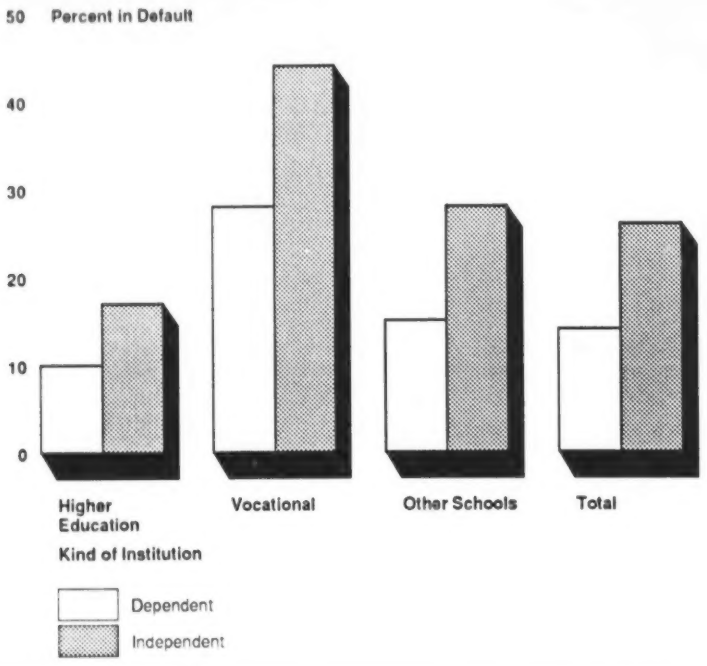
Independent Students Have Higher Default Rates



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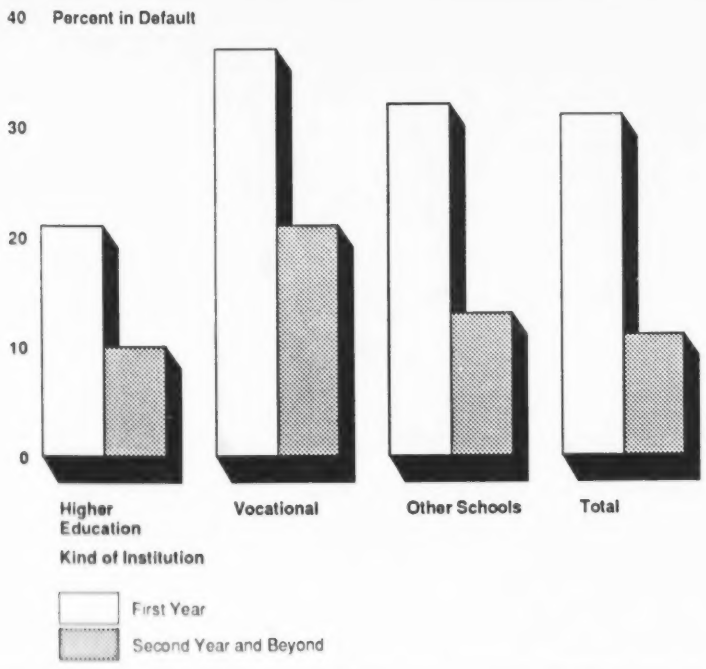
Most Defaulters Attend School For One Year or Less



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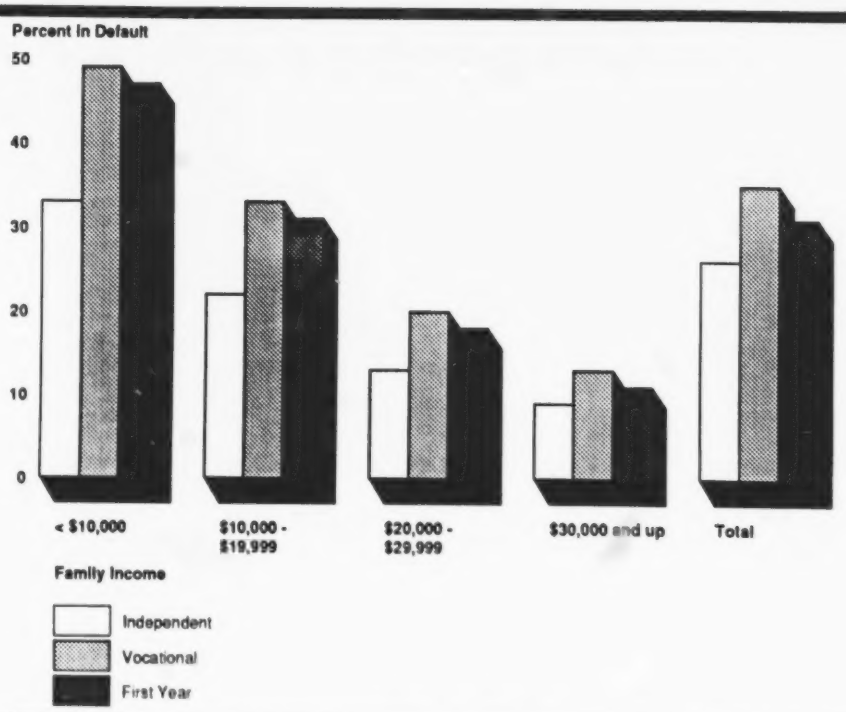
Defaulters' Income by Selected Characteristics



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Percent of 1983 Borrowers Who Defaulted by 9/30/87

Family Income at Time of Last Loan

	Under $10,000		$10,000-$19,999		$20,000-$29,999		Over $29,999		
	I	D	I	D	I	D	I	D	Total
Vocational	53	43	36	31	22	20	17	13	35
Other Schools	35	30	22	19	13	12	8	6	20
Higher Education	21	18	14	13	9	8	7	5	12
Total	32	27	22	18	13	11	9	6	18
Average	30		19		11		6		

GAO

Characteristics of Borrowers and Defaulters (Percent)

	Borrwrs.	Defltrs.
• Attended vocational schools	23	42
• Were independent students	35	53
• Attended for one year or less	36	63
• Had less than $10,000 family income	32	54

Related GAO Products

Reports

Guaranteed Student Loans: Better Criteria Needed for Financing Guarantee Agencies, GAO/HRD-86-57, 7/2/86

Defaulted Student Loans: Guaranty Agencies' Collection Practices and Procedures, GAO/HRD-86-114BR, 7/17/86

Guaranteed Student Loans: Guidelines for Reducing Guaranty Agency Reserves, GAO/HRD-86-129BR, 8/7/86

Defaulted Student Loans: Private Lender Collection Efforts Often Inadequate, GAO/HRD-87-48, 8/20/87

Guaranteed Student Loans: Legislative and Regulatory Changes Needed to Reduce Default Costs, GAO/HRD-87-76, 9/30/87

Guaranteed Student Loans: Analysis of Insurance Premiums Charged by Guaranty Agencies, GAO/HRD-88-16BR, 10/7/87

Guaranteed Student Loans: Potential Default and Cost Reduction Options, GAO/HRD-88-52BR, 1/7/88

Testimonies

The Department of Education's Actions to Collect Defaulted Student Loans, statement of William J. Gainer, Associate Director, Human Resources Division, General Accounting Office, before the Subcommittee on Postsecondary Education, House Committee on Education and Labor, 6/19/85

GAO's Views on the Default Task Force's Recommendations for Reducing Default Costs in the Guaranteed Student Loan Program, statement of William J. Gainer, Associate Director, Human Resources Division, General Accounting Office, before the Subcommittee on Postsecondary Education, House Committee on Education and Labor, 2/2/88

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